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## The Canons of Commercial Ethics

By J. H. TREGOE

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**C**AVEAT EMPTOR as a principle of merchandising grew from the nature of trading in its early stages. When the seller of commodities displayed them at fairs held in certain countries and at certain periods and the buyers congregated at these fairs for the purpose of bargaining and purchasing, the touch between the two, though immediate in one sense, was in reality very remote. The buyers and sellers might meet once and never again.

The proper principle, therefore, for the buyer to follow was the type of caution expressed in *caveat emptor*. Buying and selling was largely regarded as a field where shrewd and sharp practices ruled, and where the one most skilled in such practices reaped the largest material rewards. The relationship between buyer and seller was a cold one and a community of interests between them was not felt to exist.

The industrial revolution brought with it a change in the relationship between buyer and seller. Manufacturing on a large scale resulted in distribution on a large scale. With the geographical separation of seller and buyer that followed this large-scale manufacturing and large-scale distribution, commerce done on the principle of *caveat emptor* was on a precarious basis. Selling and buying needed a confidence and warmth which the principle of *caveat emptor* did not supply. Goods could not move freely if the buyer had continually "to beware." The compulsion was laid on the seller to make his goods of such quality as to remove the suspicion of the buyer and to insure his confidence in the goods. Thus, there developed the trade mark that

today extends not only to individual sellers, but to whole communities and countries.

With large-scale manufacturing and distribution came the increased use of credit. Since credit is based on confidence, commerce based on credit could expand only as those engaged in it, both buyers and sellers, cooperated with one another to insure mutual confidence.

Credit is so directly related to commerce and is so susceptible of misuse and flagrant abuses that the National Association of Credit Men some years ago became convinced that certain ethical principles should be laid down for the control of commerce, and from year to year they have formulated canons of commercial ethics. These canons have now reached twelve in number. They are as follows:

### CANONS OF COMMERCIAL ETHICS

*Canon No. 1.*—It is improper for a business man to participate with a lawyer in the doing of an act that would be improper and unprofessional for the lawyer to do.

*Canon No. 2.*—It undermines the integrity of business for business men to support lawyers who indulge in unprofessional practices. The lawyer who will do wrong things for ONE business man injures ALL business men. He not only injures his profession, but he is a menace to the business community.

*Canon No. 3.*—To punish and expose the guilty is one thing; to help the unfortunate but innocent debtor to rise is another; but both duties are equally important, for both duties make for a higher moral standard of action on the part of business men.

*Canon No. 4.*—In times of trouble, the unfortunate business man has the right to appeal to his fellow business men for advice and assistance. Selfish interests must be

subordinated in such a case, and all must coöperate to help. If the debtor's assets are to be administered, all creditors must join in coöperating. To fail in such a case is to fall below the best standards of commercial and association ethics.

*Canon No. 5.*—The pledged word upon which another relies is sacred among business gentlemen. The order for a bill of goods upon which the seller relies is the pledged word of a business man. No gentleman in business, without a reason that should be satisfactory to the seller, may cancel an order. He would not ask to be relieved of his obligation upon a note or check, and his contracts of purchase and sale should be equally binding. The technical defense that he has not bound himself in writing may avail him in the courts of law, but not of business ethics.

*Canon No. 6.*—Terms of sale as a part of a contract touching both net and discount maturity, are for buyer and seller alike binding and mutual, unless modified by previous or concurrent mutual agreement.

No business gentleman may, in the performance of his contracts, seek small or petty advantage, or throw the burden of a mistake in judgment upon another, but must keep his word as good as his bond, and when entering into a contract of sale faithfully observe the terms, and thus redeem the assumed promise.

*Canon No. 7.*—It is always improper for one occupying a fiduciary position to make a secret personal profit therefrom. A member of a creditors' committee, for example, may not, without freely disclosing the fact, receive any compensation for his services, for such practices lead to secret preferences and tend to destroy the confidence of business men in each other. "No man can serve two masters."

*Canon No. 8.*—The stability of commerce and credits rests upon honorable methods and practices of business men in their relations with one another, and it is improper for one creditor to obtain or seek to obtain a preference over other creditors of equal standing from the estate of an insolvent debtor, for in so doing he takes, or endeavors to take, more than his just proportion of the estate and therefore what properly belongs to others.

*Canon No. 9.*—Coöperation is unity of action, though not necessarily unity of thought. When the administration of an insolvent estate is undertaken by the creditors through friendly instrumentalities, or when, after critical investigation, creditors representing a large majority of the indebtedness advise the acceptance of a composition as representing a fair and just distribution of a debtor's assets, it is uncoöperative and commercially unethical for a creditor to refuse the friendly instrument or the composition arbitrarily and force thereby a form of administration that will be prejudicial and expensive to the interests of everyone concerned.

*Canon No. 10.*—Our credit system is founded on principles, the underlying elements of which are coöperation and reciprocity in interchange. When ledger and credit information is sought and given in a spirit inspiring mutual confidence, a potent factor for safety in credit granting has been set at work.

The interchange of ledger and credit information cannot fulfill its best and most important purposes unless guarded with equal sense of fairness and honesty by both the credit department that asks for the information and the credit department that furnishes it.

Recognizing that the conferring of a benefit creates an obligation, reciprocity in the interchange of credit information is an indispensable foundation principle; and a credit department seeking information should reciprocate with a statement of its own experience in the expectation of getting the information sought; and a credit department of which information is sought should respond fairly and accurately because the fundamentals of credit interchange have been observed in the manner the request was made of it.

Failure to observe and defend this principle would tend to defeat the binding together of credit grantors for skilful work—a vital principle of the credit system—and make the offending department guilty of an unfair and unethical act.

*Canon No. 11.*—The foundation principle of our credit structure—coöperation—should dominate and control whenever the financial affairs of a debtor become insol-

vent or involved, that equality thereby may be assured to the creditors themselves and justice to the debtor.

The control of any lesser principle produces waste, diffusion of effort and a sacrifice of interests, material and moral, with a separation of creditor and debtor that is offensive to the best laws of credit procedure.

Coöperation and unity save, construct and prevent; therefore, individual action pursued regardless of other interests in such situations, whether secretly or openly expressed by either creditor or debtor, is unwise and unethical.

*Canon No. 12.*—The healthy expansion of commerce and credits, with due regard to the preservation of their stability and healthfulness, demands an exact honesty in all of the methods and practices upon which they are founded. Advertising is an important feature in business building; it should represent and never misrepresent; it should win reliance and never cover deceit; it should be the true expression of the commodity or the service offered. It must be deemed, therefore, highly improper and unethical for advertisements to be so phrased or expressed as not to present real facts, and either directly or by implication to mislead or deceive. In this department the finest sense of honesty and fairness must be preserved, and the right relations of men with one another in commerce and credits clearly preserved.

These canons are largely self-explanatory to anyone familiar with business, but a regrouping of them with some comments may serve to bring out the standing evils against which they are directed.

The first two canons bring out strongly the point that the business man should not participate with a lawyer in any act which it is improper and unprofessional for the lawyer to perform. It is emphasized in these two canons that the integrity of business is undermined by improper practices of this type and that the lawyer who will do for one business man an im-

proper thing will do it for all business men.

Canons 3 and 4 are designed to remove a lack of coöperation and organized effort in the prosecution of commercial crime and in the helping of worthy debtors. To those familiar with the dangers to business that result from lack of coöperation among creditors in dealing with their debtors these canons need no further comment.

Canons 5 and 6 plead for the sanctity of contractual obligations and condemn the violation of them. Cancellations, the taking of unearned discounts and other violations of contract come under this head. The fundamental element of all trade is the contract which should be equally binding both upon the seller and the buyer. Briefly stated, the American business man should deliver what he sells and take what he buys.

Canons 7, 8, 9 and 11 are appeals for further coöperation among creditors. They condemn the violations of trust, the existence of secret preferences by which certain creditors obtain advantages over others. The observance of these canons make for stability of business and for the insurance of justice to both creditors and debtors.

Canon 10 is an appeal for the observance of confidence in connection with the interchange of ledger and credit experience. The stability of credit depends upon the widest coöperation in the giving of credit experience. A reciprocal obligation exists between creditors in the giving of this experience and the absence of such coöperation can only result in harm to credit and to business.

Canon 12 is an appeal for honest advertising. The relation of advertising to credit may seem at first glance remote, but a consideration of this relationship shows how closely advertising and credit are linked. Confidence, which is the basis of credit, is de-

stroyed if commodities fail to measure up to the representations of them.

That the stability of commerce rests upon the observance of such canons is apparent to anyone with business experience. The promulgation of them

and their backing by the organized power of the credit men of the National Association cannot but result in higher standards of business practice and thus in a service not only to business but to the whole social community.

## History and Present Status of the "Truth-in-Advertising" Movement

As Carried on by the Vigilance Committee of the  
Associated Advertising Clubs of the World

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AN intelligent appreciation of the creative processes at work in modern advertising efforts to establish practices of truth and integrity in relations between producer, seller and the public, necessitates a review of the different stages from the non-organized effort to the present-day organized movement known as "Truth-in-Advertising." The stages are three in number: First, the unscientific day, before 1895, when fraudulent advertising was everywhere countenanced, with occasional state laws passed in an attempt to get at flagrant violations; second, the semi-scientific period, from 1893 to 1911, when standards were in the making and when evils were being clearly defined; third, the beginning of a scientific period, from 1911 to the present, when the Associated Advertising Clubs succeeded in organizing and financing its Vigilance Committee with a definite program to encourage first and to compel afterwards—"Truth-in-Advertising."

The birth of "Truth-in-Advertising" can be clearly seen as a natural part of orderly evolution in the making of advertising history, when once our

modern concept of advertising is clearly defined. Let us review its significance. Advertising has rightly been called a business force. It is a force the dynamics of which, through the cumulative power of its organized ideas, nullifies the customs of ages and breaks down the barriers of individual habits of limited thinking. It works for the future and establishes concepts related to higher standards of living. It is at once destroyer and creator in the process of the ever-evolving new. Its constructive effort is to superimpose new conceptions of individual attainment and community desire. Advertising plays near the heart of humanity, for it touches the main-spring of individual ambition and group desire. It is one of the creative mechanisms of our day, involving individual and group aspirations. It is at once master and servant of those who wield its power. It is a master when it sets the energy impulse of man toward the realization of wishes, desires and wants. It is a servant of the individual advertiser when, through its form, it speaks the right word at the right time, in the right place, and